



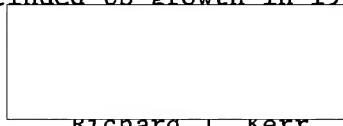
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Central Intelligence Agency
Office of the Deputy Director for Intelligence
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15 April 1985

NOTE TO: DCI

Attached are the papers you asked for. My guess is that Weinberger's comments were a result of the briefing by Andy Marshall. Marshall probably emphasized that CIA's figures shows the US surpassing Soviet procurement in 1983 and continued US growth in 1984-85.



RICHARD J. KERR
Associate Deputy Director
for Intelligence

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Executive Registry

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TRANSMITTAL SLIP		DATE
TO: DCI		
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REMARKS:		
<p>Mr. Casey - attached is the package you requested. It includes the note prepared describing Andy Marshall's briefing to Wardege today, the Gates - Marshall exchange, and the paper prepared for Marshall.</p>		
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B-306

11 April 1985

MEMORANDUM FOR: Deputy Director for Intelligence

VIA : Director of Soviet Analysis
: Chief, Defense and Economic Issues Group

FROM : [redacted] 25X1
: Chief, Comparative Analysis Branch, DEIG/SOVA

SUBJECT : Weinberger Briefing on Soviet Defense Spending Issues

1. In preparation for his breakfast meeting with Secretary of Defense Weinberger tomorrow, the Director should be aware that on Monday the Secretary will be given a briefing by Andrew Marshall (Director, Net Assessment) on Soviet defense spending issues. The briefing, which I read in Mr. Marshall's office today, is intended to preview the findings of the dollar cost paper we have in preparation, compare those findings with DIA's estimates, suggest ways the DoD can respond when the findings become public, and finally, assess future Soviet proposals for accelerated defense spending growth and the implications for US policy. [redacted]

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CIA Findings

2. The briefing presents a generally accurate rendition of our current dollar cost comparison estimates based on data we supplied Marshall's office in February.

- a. In Marshall's view, the most important trend is procurement because of its impact on the rate of force modernization and its cumulative character.
- b. Marshall points out that the new CIA figures show US procurement surpassing Soviet procurement in 1983. Continued growth of US procurement in 1984 and projected growth in 1985 suggest that the US will extend its lead if Soviet procurement remains flat. [redacted]

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Public Debate

3. Marshall is concerned that DoD be prepared to respond to the trends in US and Soviet procurement once that trend becomes known. The following points are made:

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a. Quantity estimates can be misleading

- While the dollar cost comparisons of US and Soviet procurement show convergence in 1983, production quantities remain very disparate.
- The Soviets produce more and deploy more weapons than the US.
- The US, on the other hand, produces and deploys far more capable and more expensive systems, although they are fewer in number.
- "This reflects our judgment that fewer items of our more expensive equipment are more effective. This implies that production quantity comparisons understate the relative value of the US arsenal. The cost comparison, by using dollars as a crude measure of relative quality, may therefore be seen as a more accurate indicator of relative military value."

b. Soviet procurement may have turned up in 1983

- Marshall points out that this argument is clouded by the CIA/DIA disagreement over growth in 1983 and by the inherent uncertainty of any single-year estimates, particularly the most recent ones.

c. Accumulated military "capital stock" still favors the Soviet Union.

- This cautions against a premature relaxation. It also suggests, however, that a fundamental improvement has been set in motion by the Reagan defense recovery, and that the balance of accumulated stocks will be moving in our direction for the next few years.

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CIA - DIA Forecasts

4. In discussing the defense burden on the Soviet economy, Marshall sees both CIA and DIA estimates as suggesting constraint on the future growth rate of Soviet defense spending. "Both views suggest limits in the Soviet capacity for further increases in their military programs. DIA's rising defense burden (up from 12-14% in 1970 and 14-16% in 1980 to 15-17% currently), and the slowdown CIA says has avoided a rising burden (13-14% since 1965), both point toward such limits."

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5. In closing, Marshall states that the true Soviet national security burden may be substantially higher than either CIA or DIA assumes, and sketches out some implications for US policy.

- a. If one adds in certain other costs (e.g. the costs of Empire, militarily significant "civilian" activities, adjustments for the likely subsidies and quantity adjustments of the military sector), the burden may well be over 20%.
- b. It seems unlikely that Soviet military growth will for any substantial period of time return to the 4-5% rate of the 1960s and early 1970s.
- c. Sustained US initiatives may not be easily matched by the USSR. "This opens the prospect that US strategies that impose costs and pose new challenges to the Soviets will not be overmatched by unlimited new Soviet resources. The West's emerging technologies may be seen not only as a means for the West to blunt Soviet advantages, but as posing a challenge the Soviets would be hard pressed to match over the longe term."

6. If you have any questions on these points, I am available to answer them for you.

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Washington, D.C. 20505

8 April 1985

Mr. A. W. Marshall
Director of Net Assessment
Department of Defense
Washington, D. C. 20301

Dear Andy:

Many thanks for sending me a copy of [redacted] paper on the broader burden of Soviet defense. As you state in your letter, there is some question whether the framework for economic analysis developed for Western societies can be applied to the Soviets. This was, in fact, the underlying premise for my decision to stop doing dollar cost comparison between the US and the USSR. I felt that the disparities were so great in the two systems that however good our analysis we could never capture the dual-use aspects in the Soviet economy that make their burden much higher than ours (and higher than we had been estimating). 25X1

As you know, [redacted] because of your and other requests, we will resume doing the annual dollar cost paper. I expect a new version to be out in a couple of months. As I mentioned in my letter to Fred, I am taking advantage of the hiatus in its production to change it. For example, it will begin with a section on what the Soviets actually have bought, including graphics which portray the accumulation of weapons stocks over a 10-15 year period with some indication of those outputs as a percentage of US outputs. This is a more realistic and meaningful US-USSR comparison than any cost reconstruction.

Additionally, and thanks to you, [redacted] paper gave me the idea of adding yet another section which would be to look at least one or two additional alternative ways of constructing the Soviet defense burden. I intend at a minimum to have this approach include the cost of empire, the space program, a rough cut at the cost of intelligence, and perhaps two or three other categories mentioned in [redacted] paper where we have sufficient data to enable us to make some sort of estimate. My guess is that this kind of an alternative will produce a Soviet defense burden that is on the order of 20 percent or more of GNP rather than the 13-16 percent we and DIA have been carrying. Another 25X1 25X1

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Mr. A. W. Marshall
Director of Net Assessment

feature of this approach that I like is that it will underscore some of our important uncertainties that no one has seemed to take seriously when we simply express caveats about the figures.

I have not shared [redacted] paper with anyone but wanted you to know that it did have an impact on me and has led to a further change in the way I want to do our dollar cost paper. Thanks for sending it along.

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Sincerely,



Robert M. Gates
Deputy Director for Intelligence

DDI/RMGates:sds/8April

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